

06-13-06

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

PUBLIC UTILITIES
COMMISSION

2006 JUN 13 P 3:55

FILED

----- In the Matter of -----)	
)	
PUBLIC UTILITIES COMMISSION)	DOCKET NO. 03-0372
)	
Instituting a Proceeding to Investigate)	
Competitive Bidding for New Generating)	
Capacity in Hawaii.)	
_____)	

POST-HEARING REPLY BRIEF
OF
HAWAII RENEWABLE ENERGY ALLIANCE
AND
CERTIFICATE OF SERVICE

Warren S. Bollmeier II, President
HREA
46-040 Konane Place #3816
Kaneohe HI 96744

(808) 247-7753

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

--- In the Matter of ---)	
)	
PUBLIC UTILITIES COMMISSION)	DOCKET NO. 03-0372
)	
Instituting a Proceeding to Investigate)	
Competitive Bidding for New Generating)	
Capacity in Hawaii.)	

I. INTRODUCTION

The Hawaii Renewable Energy Alliance hereby submits this document, constituting our Post-Hearing Reply Brief, dated June 13, 2006, to the Public Utilities Commission ("Commission"), in accordance with the Commission's Prehearing Order Number 20923 (Reference Docket No. 03-0372).

HREA supports competitive bidding for all new generation in Hawaii and believes there will be overall benefits to Hawaii's utilities and their ratepayers and Hawaii's economy. These include the potential to mitigate utility rate impacts in the near term and stabilize rates in the long term with increased use of renewables.

The implementation and impact of competitive bidding will be paced, in part, on: (1) how rapidly Hawaii's electricity market is opened to increased competition, (2) getting the implementation of competitive bidding right, (3) encouraging innovation in the market place, and (4) the ease of market entry to independent power producers.

HREA observes that there is some common ground among all the Parties of this docket regarding the objectives of competitive bidding, but HREA finds that there are significant differences regarding the actual implementation between HREA and other Parties, which are HECO, KIUC and the CA.

The common ground was established in collaborative discussion among the Parties following last December's hearing. These discussions did result in a "Stipulation Regarding Proposed Competitive Bidding Framework," agreed to by HECO, KIUC and CA, and filed with the Commission on May 22, 2006. However, since HREA did not support the "Stipulation," we filed an alternative proposed framework, entitled "Proposed Competitive Bidding Framework For Wholesale Generation (Plan B)," on May 22, 2006. In Plan B, HREA highlighted the differences in HREA's positions with respect to the other Parties.

Following a review of the Post-Hearing Opening Briefs from the other Parties, HREA observes that each of Parties has used its brief, in large part, to re-iterate its position as it has evolved through the December's hearing and the subsequent collaborative discussions. There was one notable exception and that was the CA's brief which provided comments and raised questions about HREA's position as expressed in Plan B. Consequently, HREA would like to focus the remainder of this Reply Brief in response to the CA's questions and comments.

II. HREA's Response to the CA's Opening Brief

HREA's response is provided below with appropriate references to page and paragraph numbers of the CA's Opening Brief.

HREA's Rationale for the Proposed Framework (pg. 16, par. 1). HREA believes that the CA misunderstands HREA's rationale. We do not see the HECO family as a "small" developer of power generation facilities in a large international market. The CA would be more correct to assume that HREA sees HECO as a big fish in a small pond in the middle of the Pacific. Given that analogy, HREA believes that HECO's participation in direct competition will discourage other "fish" from participating in competitive solicitations for wholesale generation in Hawaii.

Concerns about RFP Failures and Hawaii's Lack of Interconnectivity. HREA would agree that a RFP could fail, but so can a utility proposal. For example, HECO's Campbell Industrial Park proposal could fail, e.g., it may not secure its permits and Commission approval, or it could fail to be on-line to meet projected demand shortfalls, and there could be serious outages.

In any case, such a failure, whether IPP or utility, raises a number of questions that should be addressed as we move forward to integrating competitive bidding with IRP. For example, how do we plan adequately and conduct competitive solicitations to allow enough time to acquire new resources? Or how can elements of Contingency Planning, such as DSM measures, be implemented to defer new capacity needs in order to allow more time to completed solicitations for new wholesale capacity?

What if a Utility Back-Stop Proposal is Viewed as Superior (Pg. 17 to 18). The CA raises a good point about a RFP failure where it is believed that HECO's backstop is better. HREA's position is that the HECO's backstop proposal would be more detailed than a resource description in IRP, but not detailed as would be required for a competitive bid. However, the IPP bids are to be firm, and HREA argues that HECO will not really be in a position to show the PUC that their proposal is in fact more cost-effective.

Reliability Concerns (Pg. 18, par. 3). CA raises reliability concerns. However, if reliability requirements are clear in a RFP, HREA believes IPPs should be able to address those needs. If not, and the RFP fails, then the utility would have the right to petition to the PUC to proceed with its backstop proposal. In fact, as HREA has indicated in its Opening Brief, HECO would continue its backstop plan, as part of its parallel planning activity, until it was clear that either the RFP fails or a selected IPP fails. Note: HECO's solicitation process should allow time to recover from such failures.

Utility Self-Bid Proposals vs. an Affiliate Proposals (Pg. 18, par. 4 to pg. 19). HREA does not believe that the CA appreciates the distinctions that HREA is making when we say "HECO no-way; HECO affiliate OK." Throughout our documentation, we have stated that HECO's advantage from planning to bidding to construction and rate-basing its investments is significant. An affiliate, however, will essentially be like an IPP and, if appropriate firewalls are created and maintained, the affiliate will not have an unearned advantage over non-utility entities.

Each will have to pay for its own proposal and, if selected, will have to provide for its own funding based on PPA revenues. These are two different situations, which the CA argues are the same. They are NOT. Moreover, HREA recognizes the need for HEI to make investments for its shareholders and thus we are comfortable with the case where an affiliate is allowed to bid under the conditions that we have specified in our FSOP and in our response to the PUC's questions.

Role of the Independent Observer (Pg. 20, par. B-1 to pg. 21). The CA appears to recognize the benefits of HREA's approach to the Independent Observer (IO), then proceeds to discuss pragmatic issues and a disagreement in implementation. Specifically, we believe the CA assumes that HREA would specify that the IO would be hired by and report to the Commission in all cases. In actuality, HREA has proposed that approach for only when an affiliate is bidding (or a self-build proposal is authorized), per Model 1 of our FSOP, as re-stated in our Opening Brief and discussed in our response to the Commission's questions. Note: in Model 2 (page 13, Opening Brief), the IO would be hired by the utility (see paragraph 8 on page 6 of our May 22 submittal). We apologize we did not make that clear in our re-stated FSOP.

Regarding ex parte rules (Pg. 21, par. 1). Regarding potential problems with existing ex parte rules, HREA sees two possible solutions: (1) perhaps a change in the administrative rules in the short-term, and (2) bringing the IO capabilities in-house at the Commission in the long-term.

Balance Sheet Impacts (Pg. 22). CA does not believe our proposal to identify potential balance sheet impacts before issuing a RFP is workable. On further reflection, the CA may be correct. However, it may be possible to frame the issues in a way that would be helpful to bidders as they prepare their proposal, e.g., how much of an impact their project might have. In any case, if the concern is HECO's debt-to-equity ratio, it would appear to HREA that a self-build project would result in a much larger impact.

PURPA Issues (Pg. 23, par. D.1). HREA has stated that we believe PURPA is to exist until such time that the Commission has determined that a fully-competitive market for wholesale generation exists in Hawaii (Opening Brief, page 5, par. 6), as noted by the CA. HREA would also like to note that competitive bids with IPPs (QF or not) are likely to result in price offerings below the utility's avoided costs, especially in the case of renewables. Meanwhile, HREA's position is that there should be the flexibility for QFs to propose PURPA contracts outside of the formal IRP/RFP process.

Competitive Bidding in IRP (Pg. 24, par. E.1). CA sees some potential pragmatic problems with HREA's proposal to use Competitive Bidding for a market test to select projects for the utility's 5-year Action Plan in IRP. HREA would agree if the winners are not awarded contracts, this approach would not work. However, HREA believes KIUC's recent RFP for as-available renewables is an example of HREA's proposed approach. Our understanding is that KIUC is now proceeding to negotiate contracts with the winning four proposals, which could become part of KIUC's 5-year action plan. We would also like to note that KIUC received 20 proposals, indicating that there may indeed be some merits to this approach.

<End of HREA's Post-Hearing Opening Brief>

DATED: June 13, Honolulu, Hawaii



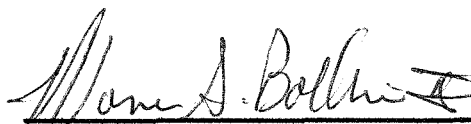
President, HREA

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Post-Hearing Reply Brief upon the following parties by causing a copy hereof to be hand-delivered or mailed, postage prepaid, and properly addressed the number of copies noted below to each such party:

Party		Party	
DIVISION OF CONSUMER ADVOCACY 335 Merchant Street Room 326 Honolulu, HI 96813	3 copies	KENT D. MORIHARA, ESQ. MICHAEL H. LAU, ESQ. 841 Bishop Street, Suite 400 Honolulu, Hawaii 96813	2 copies
THOMAS W. WILLIAMS, JR. ESQ. PETER Y. KIKUTA, ESQ. Goodsill, Anderson, Quinn & Stifel Alii Place, Suite 1800 1099 Alakea Street Honolulu, Hawaii 96813	1 copy	H.A. DUTCH ACHENBACH JOSEPH McCRAWLEY MICHAEL YAMANE Kauai Island Utility Cooperative 4463 Pahe'e Street Lihue, Hawaii 96766	1 copy
WILLIAM A. BONNET, Vice President Hawaiian Electric Company, Inc. Hawaii Electric Light Company, Inc. Maui Electric Company, Limited P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy	RICK REED Inter Island Solar Supply 761 Ahua Street Honolulu, HI 96819	1 copy
DEAN MATSUURA Hawaiian Electric Company, Inc. P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy	JOHN CROUCH Box 38-4276 Waikoloa, HI 96738	1 copy

Dated: June 13, 2006



President, HREA